



<h2>Employee Standards and Code of Conduct</h2>		
Category: “Corporate Compliance Program”	Issuing Authority: Corporate Compliance Officer	
Effective Date: April 1, 2007	Supersedes: June 1, 2005	Policy No: CC-10

PURPOSE

The Corporate Compliance Committee has established these policies and guidelines for use by employees to be used in ethical and legal decision making while conducting business.

This policy applies to all employees of Advocat Inc. and its subsidiaries (hereinafter collectively referred to as “Advocat”).

POLICY STATEMENT

It is the policy of Advocat to conduct its business in accordance with applicable laws and regulation. Advocat strives to conduct its business affairs in an ethical manner. Critical to the accomplishment of these objectives is the understanding and adherence to these standards and to rules regarding compliance with such laws and regulations by all employees.

A copy of this policy will be provided to all employees. Each employee will:

- Be required to read the policy in its entirety (CC-10A & B);
- Be invited to ask for an explanation of any term of section he or she does not understand;
- Sign a statement (form CC-10B) upon hire, indicating that they have read the policy and may ask questions about any portion of the policy that they do not understand; and
- Report any interest in any outside business at the time of initial employment or thereafter as such interest becomes known. The signed statement will be placed in the employee’s personnel file.

PROCEDURE

Specifically, the ethics of Advocat and the code of conduct for all employees are defined herein:

1. Conduct all facets of business in accordance with applicable laws, rules and regulations;
2. Shall perform their duties in good faith and to the best of their ability;



3. Shall refrain from any illegal conduct. When employee is uncertain of the meaning or application of a statute, regulation or policy, or the legality of a certain practice or activity, he or she shall seek guidance from his or her immediate supervisor, administrator, or the Compliance Officer;
4. Shall not obtain any improper personal benefit by virtue of their employment with Advocat; for example, taking money in return for awarding a vendor a contract, or accepting money from a resident's family to provide "better" care;
5. Shall not destroy or alter Advocat's information or documents prepared in anticipation of, or in response to, a request for documents by any government agency or court of competent jurisdiction;
6. Shall not engage in any business practice intended to unlawfully obtain favorable treatment or business from any government entity, physician, resident, vendor, or any other party in a position to provide such treatment or business;
7. Shall comply with Advocat's policy regarding the receipt, acceptance, offering or giving of gifts in connection with an employee's role or status as an employee of Advocat or its subsidiaries. See policy on gifts in this compliance manual;
8. Shall disclose to their immediate supervisor, administrator or Corporate Compliance Officer, any financial interest, ownership interest, or any other relationship they (or a member of their immediate family) have with Advocat's residents, customers, vendors, or competitors; the term "immediate family member" is defined in the Federal health care regulations as "husband or wife; birth or adoptive parent, child or sibling; stepparent; stepchild; stepbrother or stepsister; father-in-law; mother-in-law; son-in-law; daughter-in-law; brother-in-law; sister-in-law; grandparent or grandchild; and spouse of a grandparent or grandchild";
9. Shall not participate in any false billing of residents, government entities, or other party; for example, a simple definition of false billing would be "billing for services that were not rendered, are more expensive than the services actually rendered, or not covered by the entity responsible for paying the claim or bill";
10. Shall not use Advocat's confidential or proprietary information for their own personal benefit or for the benefit of any other person or entity, except Advocat, during or after being employed by Advocat.
11. Shall not use or disclose confidential medical or personal information, or protected health information (hereafter, "PHI"), pertaining to Advocat's residents without the express written consent and appropriate HIPAA authorization of the resident or the resident's legal representative, and in accordance with applicable law and Advocat's policies and procedures;



12. Shall ensure the confidentiality, integrity and availability of all protected health information, electronic or otherwise (hereafter, “PHI”), Advocat creates, receives, maintains or transmits; protect against threats or hazards to the privacy, confidentiality, security and integrity of such PHI; protect against uses and disclosures of PHI not permitted by federal and state laws and rules, to include HIPAA privacy and security regulations; comply with Advocat’s HIPAA policies and procedures, federal and state laws and rules, including HIPAA privacy and security regulations.
13. Shall not consent to or participate in any agreement (including agreements based on a course of conduct) with a competitor of Advocat to illegally fix prices or labor costs, allocate markets, or engage in group boycotts. If an Advocat employee is approached by a competitor concerning any of these issues, the employee shall immediately notify their immediate supervisor, administrator, or Corporate Compliance Officer.
14. Shall participate in scheduled training regarding Advocat’s compliance program;
15. Shall comply with all Advocat’s policies governing the workplace;
16. Shall promptly report all violations or suspected violations of this compliance program to the Compliance Officer through the compliance hotline at **1-888-508-9774**. The caller or author may report such information anonymously; and
17. Shall notify their immediate supervisor or administrator who will in turn notify the Compliance Officer immediately upon the receipt (at work or at home) of an inquiry, subpoena (other than for medical records or other routine licensing or tax matters), or other agency or government request for information regarding Advocat.

CORPORATE COMPLIANCE PROCESS

Advocat has developed a corporate compliance program that includes detailed explanations of the legal and ethical standards governing the conduct of Advocat and its employees in business activities. Employees are encouraged to read the corporate compliance program and may obtain a copy from their immediate supervisor. Below is a brief summary of the process used by Advocat to ensure corporate compliance.

A. Background Screening

State and federal laws prohibit Advocat from hiring employees that it knows or should have known have been arrested or convicted for certain crimes. Therefore, criminal background checks are conducted on all potential employees in accordance with state and federal laws. In addition, for employees in a position to be certified for participation in the Medicaid and/or Medicare program, Advocat investigates the Medicaid/Medicare certification status of those employees. Advocat also investigates with other licensing and related bodies, including the certified nurse assistant registry, Board of Nursing registry along with the appropriate state Board of Nursing Home Administrators, to ensure that



prospective employees currently have the certificate or license or other status required to be employed by Advocat.

B. Responsibility For Corporate Compliance

All employees have the duty to promptly report any actual or suspected violations of the corporate compliance plan. An employee who fails to promptly report any such activity may be subject to appropriate disciplinary action, which may include termination of employment.

Advocat has designated **Robert E. Rice** as its Corporate Compliance Officer. The Compliance Officer will seek advice from legal counsel when necessary to ensure compliance with the law and Advocat policies. The Compliance Officer may be reached by:

Calling **(615) 771-7575 or (888) 508-9774**
Writing 1621 Galleria Blvd., Brentwood, TN 37027

Advocat's Board of Directors and officers have also appointed a compliance committee. The Committee consists of:

Danny Montgomery	VP & CIO/Security Officer
Dave Trimble	Director, Reimbursement
David Hickman	VP Human Resources
Jimmie Manning	VP Purchasing & Property Mgmt.
Lisa Martens	VP Quality Mgmt/Clinical Services
Matthew Weishaar	VP Finance and Controller
Ray Tyler	COO
Robert Rice	VP Corporate Compliance and Risk Management, (Corporate Compliance Officer/Privacy Officer), Chairman

These members are empowered to assist the Compliance Officer in evaluating compliance issues and to make policy or procedure changes to ensure that Advocat remains in compliance with all applicable laws and regulations.

Advocat also has established a toll-free hotline for reporting all violations, suspected violations, questionable conduct, or questionable practices.

All violations, suspected violations, questionable conduct, or questionable practices shall be reported by employees to Advocat either by reporting such conduct to an immediate supervisor or facility administrator; (2) calling the Compliance Officer using the compliance hotline; or (3) reporting any suspected violation in writing to the Compliance Officer.



C. Procedures Following a Compliance Report

The policy of Advocat prohibits any retaliatory action against an employee for making a good-faith report concerning a potential compliance violation to an immediate supervisor, facility administrator, the compliance hotline, or the Compliance Officer.

Although employees are encouraged to report violations, which occur as a result of their own conduct, they may not use any communication concerning a potential compliance violation to avoid responsibility for their own actions. This fact notwithstanding, prompt and complete disclosure may be considered a mitigating factor in determining an employee's discipline or sanction.

Employees and/or supervisors shall not prevent, or attempt to prevent, an employee from communicating via the compliance hotline or to a designated official of Advocat. If an employee attempts such action, he or she is subject to disciplinary action, up to and including dismissal.

When a report of a suspected violation or questionable conduct, including reports of suspected violations of applicable state or federal health or safety standards, is brought to the attention of the Compliance Officer, the following will occur:

- Determination of whether the report raises compliance issues. If a compliance issue is raised, a compliance report form shall be completed, a copy of which shall be placed in a prepared file.
- Investigation of the suspected violation or questionable conduct and/or delegation of the investigation or analysis of suspected violations or questionable conduct to any individual(s) deemed appropriate. A memorandum regarding such inquiry shall be prepared, and copies forwarded to the CEO, Corporate Compliance Committee, facility administrator, or legal counsel. The memo shall address 1) the specific steps to investigate the matter (such as people interviewed, records reviewed, analyses performed, etc.); 2) the specific findings and/or results of the investigation; and 3) a proposed plan of action (such as disciplinary action, policy or procedure changes in-service training regarding existing policy and/or procedure, or other suggested actions) to prevent future non-compliance. A copy of the memo shall be placed in a prepared file;
- Based on the results of the investigation by the Compliance Officer, and taking into consideration any other suggestions by the CEO, Corporate Compliance Committee, facility administrator, or legal counsel, the Corporate Compliance Officer will recommend such action to the CEO, Corporate Compliance Committee, facility administrator, or legal counsel.



- Place all files regarding corporate compliance matters in a secure file cabinet in the office of the Compliance Officer. Access to files will be provided only to the Compliance Officer, Compliance Committee, CEO, and legal counsel.

D. Confidentiality of Reports

Supervisors receiving compliance reports or questions will report such information to the Compliance Officer. Supervisors will otherwise keep such information confidential.

The Compliance Officer will maintain the confidentiality of the reporting employee, as well as the content of the employee's report. While the Compliance Officer cannot guarantee confidentiality of all reports given the potential seriousness of the violation (e.g., a crime committed against an elderly resident that must be reported to the police), the Compliance Officer, as a matter of course, will only release information to:

- Third party professionals (such as lawyers, accountants, and medical professionals) retained by the Compliance Officer and Advocat to fully investigate and evaluate such reports;
- Advocat's officers, directors, or owners who are not the subject of a report and whose duties and responsibilities require that they be informed of and respond to compliance issues;
- Law enforcement officials.

Employees filing reports, either orally or in writing, should not disclose the contents of the report to anyone other than their supervisor, facility administrator, or the Compliance Officer, or an individual designated by one of them. Anonymous reports will be treated seriously and investigated as thoroughly as those filed by employees who identify themselves.

E. Discipline for Violations

Violations of the corporate compliance program will not be tolerated. Disciplinary action, which may include termination of employment, may be taken for any of the following:

- Participating in or authorizing an action that violates the corporate compliance program;
- Failing to report a violation of the compliance program;
- Refusing to cooperate in an investigation;
- Failing to detect and report a violation of the compliance program, if such failure indicates inadequate supervision or lack of oversight by a violator's supervisor; or



- Retaliating against an individual for making a good faith report of a suspected violation of the compliance program.

Consistent with any applicable collective bargaining agreements, one or more of the following disciplinary actions may be imposed, as appropriate, for violations of the corporate compliance program:

- Warning;
- Formal reprimand, which will be placed in the employee's file;
- Temporary suspension;
- Probation;
- Demotion;
- Termination of employment;
- Requirement for reimbursement for losses or damages; or
- Referral for possible criminal or civil legal action.

Employees leaving employment with Advocat will be requested to participate in an exit interview that will explore any knowledge they have of improper, unsafe, or unsound business practices.

AVC **Advocat**

Dear Employee:

Advocat Inc. and its subsidiaries (hereinafter collectively referred to as "Advocat") is committed to operating in a legal and ethical manner. As the health care regulatory environment becomes increasingly complex, it is essential that each and every one of us become familiar with the laws applicable to the compliant operation of our facilities, as we aim to achieve the highest ethical and professional standards.

As part of Advocat's commitment to corporate compliance, a detailed corporate compliance plan has been developed. The plan explains the legal and ethical standards that govern Advocat's business activities and provides guidance to employees who may encounter challenges while on the job. The plan also serves as an information source for all employees regarding the resources available to them to ensure compliance and report areas of concern. The corporate compliance plan applies to all directors, officers, employees, agents, contractors, and volunteers who have procurement authority, or serve on Advocat's board and committees.

Advocat's longstanding commitment to operating in a legally compliant manner is reflected in the personal integrity of our employees. Compliance is a cooperative effort. Advocat operates through its employees. With this in mind, it is Advocat's obligation to educate its employees about the most common forms of fraud, waste and abuse. These illegal activities include:

- Billing for services that are not rendered
- Billing for undocumented services
- Billing for services that are not necessary to treat a resident's medical condition
- Intentionally billing incorrect codes to secure higher reimbursement
- Including improper entries on cost reports
- Participating in kickbacks, particularly conduct that induces greater utilization of program reimbursed services that are medically necessary.

If you should become aware of, or even suspect an activity that could be characterized as fraud, waste or abuse, Advocat requests that you immediately report this activity to your supervisor, facility Administrator, Corporate Compliance Officer or the Compliance Hotline at 1-888-508-9774. Keep in mind that if you believe that your report is not being adequately addressed by the person to whom you initially reported the suspect activity, you should contact Advocat's Corporate Compliance Officer via telephone at (615)771-7575 or by mail at 1621 Galleria Blvd., Brentwood, Tennessee 37027. Your report will be kept confidential.

Also, if you have concerns or questions regarding accounting practices, internal financial controls, or the improper handling of assets, you should immediately report your concerns to your supervisor, facility Administrator, Corporate Compliance Officer, or the Compliance Hotline at 1-888-508-9774. Again, if you believe that your report is not being adequately addressed by the person to whom you initially reported the suspect activity, then you should contact Advocat's Corporate Compliance Officer via telephone at (615)771-7575 or by mail at 1621 Galleria Blvd., Brentwood, Tennessee 37027.

Advocat has developed a set of Employee Standards and Code of Conduct which summarizes the key points of the comprehensive corporate compliance plan. The Employee Standards and Code of Conduct indicate how business is to be conducted at Advocat and reiterates Advocat's longstanding commitment to integrity in our dealings with residents, customers, suppliers, and competitors.

You will receive the Employee Standards and Code of Conduct. If you have any questions after you have read the booklet, please make them known to your supervisor, facility Administrator, Corporate Compliance Officer or call the Compliance Hotline at 1-888-508-9774. It is important that you understand this booklet, so please ask questions about anything you are not clear about. If you do not believe you received a satisfactory response to any questions you have about the booklet from the person whom you initially asked, then you should contact the Corporate Compliance Officer via telephone at (615)771-7575 or by mail at 1621 Galleria Blvd., Brentwood, Tennessee 37027. We look forward to any questions you may have regarding our compliance program and Employee Standards and Code of Conduct.

Thank you for your commitment to corporate compliance. Your comments, questions, concerns, and suggestions are welcomed and encouraged.

Sincerely,



Robert E. Rice
Corporate Compliance Officer

CC-10A



Employee Affirmation Statement

Category: “Corporate Compliance Program”	Issuing Authority: Corporate Compliance Officer	
Effective Date: April 1, 2007	Supersedes: June 1, 2005	Policy No: CC-10B

I have been oriented to the Corporate Compliance Program (“The Process”), and I have received and reviewed a copy of the Employee Standards and Code of Conduct as part of my compliance training. By signing this Employee Affirmation Statement, I acknowledge the contents of the Employee Standards and Code of Conduct as they relate to my position. Further, I have also had the opportunity to ask questions and discuss any aspects of the Employee Standards and Code of Conduct with my immediate supervisor and facility administrator, and will forward an original signed copy of this Affirmation Statement to my immediate supervisor.

Further, except as stated below or on the attached document, as of this date I have no knowledge of any transactions or events that appear to violate the Employee Standards and Code of Conduct. I acknowledge my affirmative obligation to adhere to the principles and standards of the Employee Standards and Code of Conduct and to report any violations or suspected violations to the Employee Standards and Code of Conduct to my immediate supervisor and facility administrator, the compliance hotline, or in writing to the Corporate Compliance Officer. I also acknowledge that the Employee Standards and Code of Conduct do not represent any type of employment agreement or contract.

Print Name

Employee Signature

Date